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MEMORANDUM

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Arizona Corporation Commission

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RE: STAFF REPORT FOR MORRISTOWN WATER COMPANY'S APPLICATION
FOR A PERMANENT RATE INCREASE (DOCKET NO. W-02164A-00-0928)

Attached is the Staff Report for Morristown Water Company's application for a permanent rate increase. Staff recommends approval of the rates and charges as shown in Schedule 4. Staff further recommends approval without a hearing.

DRS:RDN:lhv

Originator: Roger D. Nash

Attachment: Original and Ten Copies

**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

**MORRISTOWN WATER COMPANY
DOCKET NO. W-02164A-00-0928**

**APPLICATION
FOR
PERMANENT RATE INCREASE**

February 2000

STAFF ACKNOWLEDGMENT

The Morristown Water Company (Docket No. W-02164A-00-0928) Staff Report was the responsibility of the Staff members listed below. Roger Nash was responsible for the review and analysis of the Company's application for a permanent rate increase, revenue requirement, rate base, and rate design. Dorothy Hains was responsible for the engineering and technical analysis. Jennifer Donlon was responsible for reviewing the Arizona Corporation Commission's records on the Company, determining compliance with Commission policies/rules and reviewing customer complaints filed with the Commission.



Roger Nash
Auditor III



Dorothy Hains
Utilities Engineer



Jennifer Donlon
Consumer Service Specialist

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Engineering Report	A
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FACTSHEET

Company:

CC&N: Decision No. 44820, dated November 27, 1974.
Current Rates: Decision No. 58504, dated January 13, 1994
Type of Ownership: Non-profit "S" Corporation

Location: Morristown is located in Maricopa County within the Phoenix Active Management Area, and lies approximately 35 miles Northwest of Phoenix on State Highway 93. (See engineering Report).

Rates:

Permanent rate application filed: November 13, 2000.

Current Test Year Ended: December 31, 1999
Prior Test Year Ended: December 31, 1992

Monthly Minimum Charge	Current Rates	Company Proposed Rates	Staff Proposed Rates
5/8 X 3/4 - inch meter	\$13.00	\$20.00	\$16.00
3/4 Inch	17.25	27.00	24.00
1 Inch	18.50	28.00	36.00
1 1/2 Inch	20.00	31.00	54.00
2 Inch	24.00	37.00	81.00
3 Inch	48.00	74.00	121.50
4 Inch	96.00	148.00	182.25
6 Inch	192.00	296.00	273.38
Gallons in Minimum	1,000	-0-	- 0 -
Commodity Charge			
Excess of minimum, charge per 1,000 gallons:			
0 to 1,000 gallons:	\$0.00	\$2.50	\$2.20
1001 to 5,000 gallons	\$2.20	\$2.50	\$2.20
5001 to 10,000 gallons	\$2.20	\$3.50	\$2.20
10001 to 20000 gallons	\$2.20	\$4.00	\$2.20
Typical residential bill (based on median usage of 3,674 gallons)	\$18.88	\$29.18	\$24.08

Customers:

Number of customers in the prior Test Year (12/31/92): 48

Number of customers in the current Test Year (12/31/99): 45

Current Test Year customers by meter size:

5/8 X 3/4 – inch	38
3/4 – inch	0
1 – inch	1
1 1/2 – inch	3
2 – inch	3
4 – inch	0
6 – inch	0
8 – inch	0

Seasonal customers: N/A

Customer notification mailed: November 10, 2000

Number of customer complaints since rate application filed: 0

Percentage of complaints to customer base: 0.00%

Summary of Filing

Based on Test Year results, as adjusted by Staff, Morristown Water Company ("Morristown" or "Company") realized an operating loss of \$224 on an Original Cost Rate Base ("OCRB") of \$11,825 for no rate of return on invested capital as shown in Schedule 1.

The Company's proposed rates, as filed, produce a revenue level of \$22,430, and an operating income of \$5,589 for 30.77 percent rate of return on an OCRB of \$18,165. Staff recommends a revenue level of \$21,611, an operating income of \$5,202 for a 43.99 percent rate of return. This would increase the typical residential bill based on a median usage of 3,674 gallons, from \$18.88 to \$24.08 for an increase of 27.5 percent.

Background

Morristown Water Company is an Arizona "S" corporation that is engaged in the business of providing public utility water service. The Company received its Certificate of Convenience and Necessity ("CC&N") by Decision No. 44820, on November 27, 1974. Decision No. 58504, dated January 13, 1994, authorized the current rates.

At the present, Morristown has 45 customers. During the past six years, the Company's customer base has diminished from 48 to 45. If this trend continues, the Company's customer base would be reduced to 43 by the year 2005.

Consumer Services

A search of Consumer Services records shows that there were no informal complaints during the Test Year and the prior two years before that.

The Company is in good standing per the Commission's Corporation Division. Records indicate that the Company has filed its 1999 Annual Report.

The Company's bill format indicates that it complies with the standards outlined in R14-2-409 of the Arizona Administrative Code.

Engineering Analysis

Staff Engineering conducted a field inspection of the Company on December 13, 2000 (See Attachment A of this Report).

The water system consists of one well, a 100,000 gallon storage tank, a 20,000 storage tank, a 2,000-gallon pressure tank, a 1½-inch well meter, two-7½ horse power booster pumps, a power control panel, and a distribution system.

The Company installed its 2,000-gallon steel pressure tank in 1997. The contractor only put the primer coat on the external hull of the tank and did not finish with the external coat. The tank now shows corrosion spots on its exterior. Staff also observed corrosion damages and signs of leakage on the 20,000-gallon storage tank.

Engineering Staff recommends that the 2000-gallon pressure tank be painted by October 31, 2001.

A young cottonwood tree was planted next to one of the 7½-HP booster pumps. Cottonwood trees are water-consuming plants; it is Staff's opinion this tree should be removed or relocated before its roots can penetrate to the adjacent underground utility infrastructures.

The distribution system includes 1,990 feet of 4-inch polyvinyl chloride ("PVC"), and 7,923 feet of 6-inch PVC water lines. Fourteen fire hydrants have been installed in Morristown's CC&N area.

The water usage data was distorted by erratic readings; one month would include five weeks reading while another month would have three weeks. These readings affected the monthly usage numbers but the annual usage was all right. There appeared to be over a 30 percent water loss during the Test Year, but it was discovered that the Fire Department uses Morristown water to fight fires in the area. The Fire Department tests their equipment on Morristown hydrants monthly without providing gallonage used. During the Test Year, according to the Company, there were some big fires that resulted in water use not reported. Staff recommends the Company require the Fire Department to provide estimated water usage when the above-described events occur. In this manner, the Company will be able to properly account for the "unaccounted" for water.

Compliance

Morristown is located in the Phoenix Active Management Area ("AMA"). At the present time, Morristown Water Company pumps less than 250 acre-feet per year; therefore, is not subject to Arizona Department of Water Resources' gallons per capita per day ("gpcd") limit and conservation rules. Morristown is only required to monitor and report water use. Morristown is in compliance with these monitoring and reporting requirements.

The Maricopa County Department of Environmental Services ("MCDES") performed a plant inspection on April 13, 1999, and found the system to have major plant deficiencies. In addition, MCDES states it cannot determine if Morristown meets maximum contaminant level ("MCL") requirements of the Safe Drinking Water Act ("SDWA"). In a December 4, 2000, memorandum to Staff, MCDES stated Morristown failed to submit eleven monthly bacteria sample results in the last three years. Morristown also failed to monitor its nitrate, inorganic chemicals, volatile organic chemicals, and asbestos during the same time period. Staff Engineering recommends that any rate increase approved become effective the first day of the month following the Company filing with the Director of the Utilities Division written

documentation from MCDES or ADEQ that the water system has no MCL violations and is serving water which meets the water quality standards of the SDWA.

In regard to the Company's annual water testing expense, the Company has submitted an expense level of \$1,140. Staff Engineering has estimated that the Company's cost to perform required water testing will average \$839 per year.

The Company is current in the remittance of sales tax and property taxes.

Rate Base

Staff's adjustments reduced the Company's proposed Rate Base of \$18,165 to \$13,805 as depicted in (Schedule 2, Page 1).

Adjustment A increased the Plant in Service by \$961 from \$400,792 to \$401,753.

Adjustment B increased the Accumulated Depreciation account by \$289.

Adjustment C increased Contribution in Aid of Construction ("CIAC") by \$5,790, \$2,200 of which was out of Test Year (1998), and Plant Advances by \$1,585.

Adjustment D was the result of the increase to CIAC, consequently an increase in the amortization of CIAC of \$400.

Adjustment E is based on Staff's adjustment to Operating Expenses (Schedule 3, Page 1).

Plant and Equipment

Adjustment A as depicted in Schedule 2, Page 2, increases Electric Pumping Equipment by \$961 to capitalize labor, rental of equipment, and freight regarding this plant category addition in 1994.

Accumulated Depreciation

Staff's adjustment A increased accumulated depreciation by \$289 based on Staff's increase to Plant in Service.

CIAC

Adjustment C as shown in Schedule 2, Page 1, increased CIAC by \$5,790. In July 1998, the Company assessed a \$10 surcharge per month per bill without Commission approval. The proceeds of the surcharge were designed to replace the 20,000-gallon storage tank. In June 1999, the Company ceased collection of the surcharge. This adjustment reclassifies the \$3,590 collected in the Test Year and \$2,200 out of Test Year (1998) through the surcharge from Other

Water Revenues to Contributions in Aid of Construction to account for customer contribution toward the storage tank.

Staff recommends the Company seek approval prior to the implementation of charges not consistent with Commission's approved tariffs.

Adjustment C also reclassified meter deposits of \$1,585 from Other Revenues to Plant Advances.

Adjustment D increased amortization of CIAC to reflect Staff's increase in CIAC as explained above.

Operating Revenues

The Metered Water Revenue from customer billings submitted in the Company's application conformed to the revenues derived from the bill counts. Therefore, no adjustment was necessary to metered sales.

Adjustment A reclassifies from Metered Water Revenue to Other Water Revenues the amount collected due to an unauthorized surcharge from customers during the Test Year of \$3,590, and meter deposits of \$1,585 to Plant Advances. Total adjustment to Other Water Revenues is \$5,175.

Operating Expenses

Staff's adjustments to Test Year expenses resulted in a decrease of \$432 as shown on Schedule 3, Page 1, of this Report.

Adjustment B decreased Water Testing by \$301 to reflect Engineering Staff recommended expense level of \$839.

Adjustment C decreased Depreciation Expense by \$241 reflecting Staff's adjustments to Plant in Service.

Adjustment D records on a pro forma basis Interest Expense of \$928 and Reserve/replacement fund of \$469 as the result of Staff's recommended Water Infrastructure Financing A ("WIFA") loan. Please refer to the Other Matters section of this Report.

Rate of Return

There are several methods to arrive at a fair and reasonable rate of return. Cost of capital studies, operating margin, cash requirements analysis and debt service coverage ratios are the most common methodologies used. The Company's filing did not require cost of capital studies to arrive at its proposed rate of return.

Staff based its recommended rate of return on the WIFA required Debt Service Coverage ("DSC") ratio of at least 1.20. This ratio means that for every dollar of debt service required, the Company must generate \$1.20 of net operating income.

Staff's proposed rates produce a DSC ratio of 1.53. Staff's proposed rates would enable the Company to meet a DSC ratio of at least 1.20 and provide for contingencies. This ratio translates to a 43.99 percent rate of return. Staff believes this high rate of return is appropriate in this instance due to the fact that this is a non-profit corporation and the plant in service is over 80 percent depreciated. Thus, a small rate base.

Cash Flow and Rate Design

Staff's recommended rates and charges presented on Schedule 4 provide sufficient revenue to cover operations, maintenance, debt service, and normal contingencies.

The Company's current tariff includes 1,000 gallons in the minimum and proposes to reduce it to zero gallons. Staff agrees with the reduction in the minimum gallons to zero. Staff believes its reduction to zero gallons in the minimum will encourage conservation while providing revenue stability.

The Company requested a four-tier commodity rate structure. In Staff's opinion, due to a median usage of 3,674 gallons per month only one tier is necessary at this time, to assure a revenue level able to meet the debt service requirements of Staff recommended loan.

Staff believes the Company's requested Service Line and Meter Installation Charges are not in line with comparable water companies and should be increased per Staff Engineering's recommendations as shown on Schedule 4.

Other Matters

The Company appears to be using the National Association of Regulatory Utility Commissioners ("NARUC") system of accounts. However, as illustrated by some Staff adjustments made, the Company needs to fully implement the accounting instructions recommended by NARUC.

During the 1998 operating year, the homeowners association of Morristown voted to assess its membership a \$10 surcharge per customer per month charge for one year ending in June 1999. Morristown did not seek Commission approval of the aforementioned additional customer charges. The Company's goal was to raise funds to replace the rusting 20,000-gallon storage tank. The Company collected \$5,790 through June 1999, and suspended the surcharge at that time. The Company had obtained a quote of \$10,000 for the replacement of the storage tank. However, the quoted price did not include epoxy coating the interior and painting the exterior of the tank. In view of this, the contractor was released from his obligation. The Company is in the process of obtaining a more inclusive quote. In Staff's opinion, funding the replacement of the

20,000-gallon storage tank via an unauthorized surcharge or with internal funds generated by rates is not appropriate.

Staff believes that after applying the CIAC to the improvements, the Company should finance the remainder of the above mentioned plant improvements through long-term debt. Accordingly, Staff recommends the Company file a loan application with the Water Infrastructure Finance Authority ("WIFA"), and get financing approval from the Commission.

This recommendation becomes more evident due to the estimated cost to replace the storage tank of \$19,250 and the cost of sandblasting the pressure tank of \$3,000.

Staff is recommending the Company deposit the entire collected amount of \$5,790 in an interest bearing account to be applied to the cost of the storage tank replacement.

Based on a loan of \$18,000, at an interest rate of 5.5 percent for a period of 10 years, the annual principal, interest, and reserve/replacement fund payments equate to \$2,949.

Staff's proposed rates and revenue level will provide a Debt Service Coverage Ratio of 1.53 which will generate adequate coverage to meet the lending institution's required DSC ratio.

Staff Recommendations

Staff recommends approval of the rates and charges presented in Schedule 4 of this Report.

Staff further recommends its approval of its rates and charges without a hearing.

Staff further recommends the Company be directed to establish an interest bearing account and deposit the unauthorized surcharge collected of \$5,970 to be used solely for the replacement of the 20,000-gallon storage tank.

Staff further recommends the Company seek approval prior to the implementation of charges not consistent with Commission's approved tariffs.

Staff further recommends the Company request financing authority from the Commission to find the balance of estimated costs of system repairs and the replacement of the 20,000-gallon storage tank.

Staff further recommends the removal of the cottonwood tree from its existing location to an area outside the well lot by December 31, 2001.

Staff further recommends the 2,000-gallon pressure tank be sand blasted for rust removal and repainted by October 31, 2001.

Staff further recommends the replacement of the 20,000-gallon storage tank by December 31, 2001.

Staff further recommends that any rate increase approved will not become effective until the first day of the month following the Company filing with the Director of the Utilities Division documentation from MCDES or ADEQ that the water system has no MCL violations and is providing water which meets the water quality standards of the SDWA.

Staff further recommends that any rate increase granted be interim and subject to refund, if the Company misses any of the bacteriological tests between the dates of this order and December 31, 2002.

Staff further recommends the Company maintain a usage log on the Fire Department's water use each month.

Staff further recommends the Company reduce its unaccounted for water to a maximum of 15 percent by the next rate application, but preferably ten percent. If unaccounted for water cannot be reduced to ten percent, then the Company should provide a detailed explanation as to why it is not cost effective to do so.

Staff further recommends that in addition to the collection of the Company's regular rates and charges, Morristown Water Company shall collect from its customers their proportionate share of any Privilege, Sales or Use Tax as provided for in A.A.C. R14-2-409.D.

Morristown Water Company

Docket No. W-02164A-00-0928

Test Year Ended December 31, 1999

Schedule 1

SUMMARY OF FILING

	-- Present Rates --		-- Proposed Rates --	
	Company as Filed	Staff as Adjusted	Company as Filed	Staff as Adjusted
Revenues:				
Metered Water Revenue	\$15,595	\$15,595	\$22,430	\$21,131
Unmetered Water Revenue	0	0	0	0
Other Water Revenues	5,655	480	0	480
Total Operating Revenue	\$21,250	\$16,075	\$22,430	\$21,611
Operating Expenses:				
Operation and Maintenance	\$13,107	\$12,806	\$13,107	\$12,806
Depreciation	2,693	2,452	2,693	2,562
Property & Other Taxes	1,041	1,041	1,041	1,041
Income Tax	0	0	0	0
Total Operating Expense	\$16,841	\$16,299	\$16,841	\$16,409
Operating Income/(Loss)	\$4,409	(\$224)	\$5,589	\$5,202
Rate Base O.C.L.D.	\$18,165	\$11,825	\$18,165	\$11,825
Rate of Return - O.C.L.D.	24.27%	-1.89%	30.77%	43.99%
Times Interest Earned Ratio (Pre-Tax)	3.71	-0.11	3.71	2.51
Debt Service Coverage Ratio (Pre-Tax)	5.97	0.44	5.97	1.53
Operating Margin	20.75%	-1.39%	24.92%	24.07%

- NOTES:
1. The times interest earned ratio (TIER) represents the ability of the Company to pay interest expenses before taxes.
 2. Operating Margin represents the proportion of funds available to pay interest and other below the line or non-ratemaking expenses.

RATE BASE

	----- Original Cost -----			
	Company	Adjustment		Staff
Plant in Service	\$400,792	\$961	A	\$401,753
Less:				
Accum. Depreciation	322,648	289	B	322,937
Net Plant	\$78,144	\$672		\$78,816
Less:				
Plant Advances(Meter Deposits)	\$0	\$1,585	C	\$1,585
Accumulated Deferred Income Taxes	0	0		0
Total Advances	\$0	\$1,585		\$1,585
Contributions Gross	\$341,962	\$5,790	C	\$347,752
Less:				
Amortization of CIAC	280,615	400	D	281,015
Net CIAC	\$61,347	\$5,390		\$66,737
Total Deductions	\$61,347	\$6,975		\$68,322
Plus:				
1/24 Power	\$135	\$0		\$135
1/8 Operation & Maint.	1,233	(38)	E	1,195
Inventory	0	0		0
Prepayments	0	0		0
Total Additions	\$1,368	(\$38)		\$1,331
Rate Base	\$18,165	(\$6,341)		\$11,825

Explanation of Adjustment:

- A - See Schedule 2 page 2 of 3
- B - See Schedule 2 page 3 of 3
- C - Reclassify collection of assessment from Other Revenue to CIAC - \$5,790, \$2,200 out of Test Year (1998) CIAC, and reclassify from Other Revenue \$1,585 to Plant Advances.
- D - CIAC amortization of 5% of the above reclassification - \$400
- E - Based on Staff's adjustment to Operating Expense

PLANT ADJUSTMENT

	Company Exhibit	Adjustment	Staff Adjusted
301 Organization	\$3,175	\$0	\$3,175
302 Franchises	0	0	0
303 Land & Land Rights	1,790	0	1,790
304 Structures & Improvements	42,931	0	42,931
307 Wells & Springs	27,281	0	27,281
311 Pumping Equipment	64,354	961 A	65,315
320 Water Treatment Equipment	0	0	0
330 Distribution Reservoirs & Star	65,200	0	65,200
331 Transmission & Distribution N	110,980	0	110,980
333 Services	3,968	0	3,968
334 Meters & Meter Installations	1,341	0	1,341
335 Hydrants	14,000	0	14,000
336 Backflow Prevention Devices	0	0	0
339 Other Plant and Misc. Equipm	0	0	0
340 Office Furniture & Equipment	0	0	0
341 Transportation Equipment	0	0	0
343 Tools Shop & Garage Equipm	0	0	0
344 Laboratory Equipment	0	0	0
345 Power Operated Equipment	0	0	0
346 Communication Equipment	0	0	0
347 Miscellaneous Equipment	0	0	0
348 Other Tangible Plant	65,772	0	65,772
105 C.W.I.P.	0	0	0
TOTALS	\$400,792	\$961	\$401,753

Explanation of Adjustment:

A - 1994 Addition, Company did not capitalize labor, rental, and freight for total of \$961

ACCUMULATED DEPRECIATION ADJUSTMENT

	<u>Amount</u>
Accumulated Depreciation - Per Company	\$322,648
Accumulated Depreciation - Per Staff	322,937 A
Total Adjustment	\$289

Explanation of Adjustment:

- A - Accumulated Depreciation of 5% of \$961 from 1994 through 1999.

STATEMENT OF OPERATING INCOME

	Company Exhibit	Staff Adjustments	Staff Adjusted
Revenues:			
461 Metered Water Revenue	\$15,595	\$0	\$15,595
460 Unmetered Water Revenue	0	0	0
474 Other Water Revenues	5,655	(5,175) A	\$480
Total Operating Revenue	\$21,250	(\$5,175)	\$16,075
Operating Expenses:			
601 Salaries and Wages	\$0	\$0	\$0
610 Purchased Water	0	0	0
615 Purchased Power	3,243	0	3,243
618 Chemicals	0	0	0
620 Repairs and Maintenance	1,575	0	1,575
621 Office Supplies & Expense	0	0	0
630 Outside Services	4,725	0	4,725
635 Water Testing	1,140	(301) B	839
641 Rents	0	0	0
650 Transportation Expenses	0	0	0
657 Insurance - General Liability	1,505	0	1,505
659 Insurance - Health and Life	0	0	0
666 Regulatory Commission Expense - Rate Case	0	0	0
675 Miscellaneous Expense	919	0	919
403 Depreciation Expense	2,693	(241) C	2,452
408 Taxes Other Than Income	0	0	0
408.11 Property Taxes	1,041	0	1,041
409 Income Tax	0	0	0
Total Operating Expenses	\$16,841	(\$542)	\$16,299

OPERATING INCOME/(LOSS)	\$4,409	(\$4,633)	(\$224)
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Other Income/(Expense):

419 Interest and Dividend Income	\$0	\$0	\$0
421 Non-Utility Income	0	0	0
427 Interest Expense	1,190	928 D	2,118
4XX Reserve/Replacement Fund Deposit	0	469 E	469
426 Miscellaneous Non-Utility Expense	0	0	0
Total Other Income/(Expense)	(\$1,190)	(\$1,397)	(\$2,587)

NET INCOME/(LOSS)	\$3,219	(\$6,030)	(\$2,811)
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STAFF ADJUSTMENTS

A -	OTHER WATER REVENUES - Per Company	\$5,655	
	Per Staff	<u>480</u>	<u>(\$5,175)</u>

Reclassifies the amount collected from customers during the Test Year (1999), \$3,590, for subsidizing the replacement of the 20,000-gallon tank, and meter deposits of \$1,585. Total adjustment to Other Water Revenues is \$5,175.

B -	WATER TESTING - Per Company	\$1,140	
	Per Staff	<u>839</u>	<u>(\$301)</u>

Water Testing was decreased by \$301 to reflect Engineering Staff recommended expense level of \$839.

C -	DEPRECIATION - Per Company	\$2,693	
	Per Staff	<u>2,452</u>	<u>(\$241)</u>

Decreased Depreciation Expense by \$131 reflecting Staff's adjustments to Plant in Service.

STAFF ADJUSTMENTS (Cont.)

Pro Forma Annual Depreciation Expense:

Plant in Service	\$401,753	
Less: Non Depreciable Plant	4,965	
Fully Depreciated Plant	0	
Depreciable Plant	\$396,788	
Times: Staff Proposed Depreciation Rate	5.00%	
Credit to Accumulated Depreciation	\$19,839 *	
Less: Amort. of CIAC* @ 5.00%	17,388	
Pro Forma Annual Depreciation Expense	\$2,452	

*** Amortization of CIAC:**

Contribution(s) in Aid of Construction (Gross)	\$347,752	
Less: Non Amortizable Contribution(s)	0	
Fully Amortized Contribution(s)	0	
Amortizable Contribution(s)	\$347,752	
Times: Staff Proposed Amortization Rate	5.00%	
Amortization of CIAC	\$17,388	

D - INTEREST EXPENSE - Per Company	\$1,190	
Per Staff	2,118	\$928

Records on a pro forma basis an increase in Interest Expense of \$708 as the result of the proposed loan.

E - RESERVE/REPLACEMENT FUND DEPOSIT - Per Company	\$0	
Per Staff	469	\$469

Adjustment F records on a pro forma basis \$469 of Reserve/Replacement Fund Deposit as a result of the proposed loan.

RATE DESIGN

Monthly Usage Charge	Present	-Proposed Rates-	
	Rates	Company	Staff
5/8" x 3/4" Meter	\$13.00	\$20.00	\$16.00
3/4" Meter	17.25	27.00	24.00
1" Meter	18.50	28.00	36.00
1½" Meter	20.00	31.00	54.00
2" Meter	24.00	37.00	81.00
3" Meter	48.00	74.00	121.50
4" Meter	96.00	148.00	182.25
6" Meter	192.00	296.00	273.38
Excess of Minimum - per 1,000 Gallons	\$2.20	\$2.50	\$2.20
Gallons Included in Minimum	1,000	0	0
<u>Service Line and Meter Installation Charges</u>			
5/8" x 3/4" Meter	\$315.00	\$315.00	\$375.00
3/4" Meter	350.00	350.00	435.00
1" Meter	385.00	385.00	510.00
1½" Meter	575.00	575.00	740.00
2" Meter	950.00	950.00	1,300.00
3" Meter	1,175.00	1,175.00	1,855.00
4" Meter	1,950.00	1,950.00	2,870.00
6" Meter	3,825.00	3,825.00	5,375.00
<u>Service Charges</u>			
Establishment	\$15.00	\$15.00	\$15.00
Establishment (After Hours)	30.00	30.00	30.00
Reconnection (Delinquent)	30.00	30.00	30.00
Meter Test (If Correct)	40.00	40.00	40.00
Deposit	0.00	0.00	0.00
Deposit Interest	0.00%	0.00%	0.00%
Re-Establishment (Within 12 Months)	0.00	**	**
NSF Check	15.00	15.00	15.00
Deferred Payment	1.50%	1.50%	1.50%
Meter Re-Read (If Correct)	10.00	10.00	10.00
<u>Monthly Service Charge for Fire Sprinkler</u>			
4" or Smaller	\$0.00	\$0.00	***
6"	0.00	0.00	***
8"	0.00	0.00	***
10"	0.00	0.00	***
Larger than 10"	0.00	0.00	***

* Per Commission Rules (R14-2-403.B)

** Months off system times the minimum (R14-2-403.D)

*** 1.00% of Monthly Minimum for a Comparable Sized Meter Connection, but no less than \$5.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.

TYPICAL BILL ANALYSIS
General Service 5/8 X 3/4 - Inch Meter

Average Number of Customers: 38

<u>Company Proposed</u>	<u>Gallons</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
Average Usage	6,302	\$24.66	\$36.40	\$11.74	47.6%
Median Usage	3,674	\$18.88	\$29.18	\$10.30	54.6%
<u>Staff Proposed</u>					
Average Usage	6,302	\$24.66	\$29.86	\$5.20	21.1%
Median Usage	3,674	\$18.88	\$24.08	\$5.20	27.5%

Present & Proposed Rates (Without Taxes)
General Service 5/8 X 3/4 - Inch Meter

<u>Gallons Consumption</u>	<u>Present Rates</u>	<u>Company Proposed Rates</u>	<u>% Increase</u>	<u>Staff Proposed Rates</u>	<u>% Increase</u>
0	\$13.00	\$20.00	53.8%	\$16.00	23.1%
1,000	13.00	22.50	73.1%	18.20	40.0%
2,000	15.20	25.00	64.5%	20.40	34.2%
3,000	17.40	27.50	58.0%	22.60	29.9%
4,000	19.60	30.00	53.1%	24.80	26.5%
5,000	21.80	32.50	49.1%	27.00	23.9%
6,000	24.00	35.50	47.9%	29.20	21.7%
7,000	26.20	38.50	46.9%	31.40	19.8%
8,000	28.40	41.50	46.1%	33.60	18.3%
9,000	30.60	44.50	45.4%	35.80	17.0%
10,000	32.80	47.50	44.8%	38.00	15.9%
15,000	43.80	65.00	48.4%	49.00	11.9%
20,000	54.80	82.50	50.5%	60.00	9.5%
25,000	65.80	102.50	55.8%	71.00	7.9%
50,000	120.80	202.50	67.6%	126.00	4.3%
75,000	175.80	302.50	72.1%	181.00	3.0%
100,000	230.80	402.50	74.4%	236.00	2.3%
125,000	285.80	502.50	75.8%	291.00	1.8%
150,000	340.80	602.50	76.8%	346.00	1.5%
175,000	395.80	702.50	77.5%	401.00	1.3%
200,000	450.80	802.50	78.0%	456.00	1.2%

TYPICAL BILL ANALYSIS
General Service 1 - Inch Meter

Average Number of Customers: 1

<u>Company Proposed</u>	<u>Gallons</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
Average Usage	591	\$18.50	\$29.48	\$10.98	59.3%
Median Usage	#N/A	#N/A	#N/A	#N/A	#N/A
<u>Staff Proposed</u>					
Average Usage	591	\$18.50	\$37.30	\$18.80	101.6%
Median Usage	#N/A	#N/A	#N/A	#N/A	#N/A

Present & Proposed Rates (Without Taxes)
General Service 1 - Inch Meter

<u>Gallons Consumption</u>	<u>Present Rates</u>	<u>Company Proposed Rates</u>	<u>% Increase</u>	<u>Staff Proposed Rates</u>	<u>% Increase</u>
0	\$18.50	\$28.00	51.4%	\$36.00	94.6%
1,000	18.50	30.50	64.9%	38.20	106.5%
2,000	20.70	33.00	59.4%	40.40	95.2%
3,000	22.90	35.50	55.0%	42.60	86.0%
4,000	25.10	38.00	51.4%	44.80	78.5%
5,000	27.30	40.50	48.4%	47.00	72.2%
6,000	29.50	43.50	47.5%	49.20	66.8%
7,000	31.70	46.50	46.7%	51.40	62.1%
8,000	33.90	49.50	46.0%	53.60	58.1%
9,000	36.10	52.50	45.4%	55.80	54.6%
10,000	38.30	55.50	44.9%	58.00	51.4%
15,000	49.30	73.00	48.1%	69.00	40.0%
20,000	60.30	90.50	50.1%	80.00	32.7%
25,000	71.30	110.50	55.0%	91.00	27.6%
50,000	126.30	210.50	66.7%	146.00	15.6%
75,000	181.30	310.50	71.3%	201.00	10.9%
100,000	236.30	410.50	73.7%	256.00	8.3%
125,000	291.30	510.50	75.2%	311.00	6.8%
150,000	346.30	610.50	76.3%	366.00	5.7%
175,000	401.30	710.50	77.0%	421.00	4.9%
200,000	456.30	810.50	77.6%	476.00	4.3%

TYPICAL BILL ANALYSIS
General Service 1 1/2 - Inch Meter

Average Number of Customers: 3

<u>Company Proposed</u>	<u>Gallons</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
Average Usage	17,278	\$55.81	\$83.97	\$28.16	50.5%
Median Usage	7,500	\$34.30	\$58.50	\$24.20	70.6%
<u>Staff Proposed</u>					
Average Usage	17,278	\$55.81	\$92.01	\$36.20	64.9%
Median Usage	7,500	\$34.30	\$70.50	\$36.20	105.5%

Present & Proposed Rates (Without Taxes)
General Service 1 1/2 - Inch Meter

<u>Gallons Consumption</u>	<u>Present Rates</u>	<u>Company Proposed Rates</u>	<u>% Increase</u>	<u>Staff Proposed Rates</u>	<u>% Increase</u>
0	\$20.00	\$31.00	55.0%	\$54.00	170.0%
1,000	20.00	33.50	67.5%	56.20	181.0%
2,000	22.20	36.00	62.2%	58.40	163.1%
3,000	24.40	38.50	57.8%	60.60	148.4%
4,000	26.60	41.00	54.1%	62.80	136.1%
5,000	28.80	43.50	51.0%	65.00	125.7%
6,000	31.00	46.50	50.0%	67.20	116.8%
7,000	33.20	49.50	49.1%	69.40	109.0%
8,000	35.40	52.50	48.3%	71.60	102.3%
9,000	37.60	55.50	47.6%	73.80	96.3%
10,000	39.80	58.50	47.0%	76.00	91.0%
15,000	50.80	76.00	49.6%	87.00	71.3%
20,000	61.80	93.50	51.3%	98.00	58.6%
25,000	72.80	113.50	55.9%	109.00	49.7%
50,000	127.80	213.50	67.1%	164.00	28.3%
75,000	182.80	313.50	71.5%	219.00	19.8%
100,000	237.80	413.50	73.9%	274.00	15.2%
125,000	292.80	513.50	75.4%	329.00	12.4%
150,000	347.80	613.50	76.4%	384.00	10.4%
175,000	402.80	713.50	77.1%	439.00	9.0%
200,000	457.80	813.50	77.7%	494.00	7.9%

TYPICAL BILL ANALYSIS

General Service 2 - Inch Meter

Average Number of Customers: 3

<u>Company Proposed</u>	<u>Gallons</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
Average Usage	11,042	\$46.09	\$68.15	\$22.05	47.8%
Median Usage	8,000	\$39.40	\$64.50	\$25.10	63.7%
<u>Staff Proposed</u>					
Average Usage	11,042	\$46.09	\$105.29	\$59.20	128.4%
Median Usage	8,000	\$39.40	\$98.60	\$59.20	150.3%

Present & Proposed Rates (Without Taxes) General Service 2 - Inch Meter

<u>Gallons Consumption</u>	<u>Present Rates</u>	<u>Company Proposed Rates</u>	<u>% Increase</u>	<u>Staff Proposed Rates</u>	<u>% Increase</u>
0	\$24.00	\$37.00	54.2%	\$81.00	237.5%
1,000	24.00	39.50	64.6%	83.20	246.7%
2,000	26.20	42.00	60.3%	85.40	226.0%
3,000	28.40	44.50	56.7%	87.60	208.5%
4,000	30.60	47.00	53.6%	89.80	193.5%
5,000	32.80	49.50	50.9%	92.00	180.5%
6,000	35.00	52.50	50.0%	94.20	169.1%
7,000	37.20	55.50	49.2%	96.40	159.1%
8,000	39.40	58.50	48.5%	98.60	150.3%
9,000	41.60	61.50	47.8%	100.80	142.3%
10,000	43.80	64.50	47.3%	103.00	135.2%
15,000	54.80	82.00	49.6%	114.00	108.0%
20,000	65.80	99.50	51.2%	125.00	90.0%
25,000	76.80	119.50	55.6%	136.00	77.1%
50,000	131.80	219.50	66.5%	191.00	44.9%
75,000	186.80	319.50	71.0%	246.00	31.7%
100,000	241.80	419.50	73.5%	301.00	24.5%
125,000	296.80	519.50	75.0%	356.00	19.9%
150,000	351.80	619.50	76.1%	411.00	16.8%
175,000	406.80	719.50	76.9%	466.00	14.6%
200,000	461.80	819.50	77.5%	521.00	12.8%

**ENGINEERING REPORT
FOR
MORRISTOWN WATER COMPANY, INC.
DOCKET NO. W-02164A-00-0928 (RATES)**

EXECUTIVE SUMMARY

- I. The Morristown Water Company ("Company") is not in compliance with the Arizona Department of Environmental Quality ("ADEQ") drinking water rules. Maricopa County Department of Environmental Services ("MCDES") states that the Company has major deficiencies. MCDES also states that MCDES cannot determine if the Company provides water that is below maximum contaminant levels ("MCL") and meets the water quality standards of the Safe Drinking Water Act ("SDWA"). It is recommended that any rate increase approved in this case, not become effective until the first day of the month following the Company filing with the Director of the Utilities Division written documentation from MCDES or ADEQ that the water system has no MCL violations and is serving water which meets the water quality standards of the SDWA. (See Section F, Maricopa County Environmental Quality Service Compliance.)
- II. All water testing costs are presented as a pro forma expense on an annual basis. Engineering Staff estimates annual water testing costs to be \$839. (See Section H, Water Testing Expenses.)
- III. Recommended service line and meter installation charges are delineated in Table 3 of this report. (See Section I, Other.)
- VI. Due to high water loss (30.32%) found in the system, it is recommended that approval of the subject application be pending action by Morristown to reduce its water loss to a maximum of 15% and preferably 10%. If Morristown does not reduce water loss to the 10% level, Morristown should explain why it is not cost effective to do so. In any event, Morristown should reduce its water loss to no more than 15% prior to filing its next rate and/or financing application. (See Section I, Other.)
- V. It is recommended that the cottonwood tree be removed from its existing location to an area outside the well lot by December 31, 2001. (See Section I, Other.)
- VI. It is recommended that the 2,000-gallon pressure tank be painted by October 31, 2001. The cost of this is estimated to be \$3,000. (See Section I, Other.)
- VII. It is recommended that the leak in the 20,000-gallon storage tank be repaired by December 31, 2001. The cost to repair the leak is estimated to be \$8,000 and the cost to replace the 20,000-gallon storage tank is estimated to be \$19,250. (See

Section I, Other.)

- VIII. Due to the fact that the Company has missed so many bacteriological tests (eleven) in the past three years, Staff further recommends that any rate increase granted to Morristown in this case be interim and subject to refund through December 31, 2002. If the Company misses any of these tests during that time, the Commission may order the Company to refund all or a portion of the rate increase granted in this case. (See Section I, Other.)

**ENGINEERING REPORT
FOR
MORRISTOWN WATER COMPANY, INC.
DOCKET NO. W-02164A-00-0928 (RATES)**

A. PURPOSE OF REPORT

This report was prepared in response to the application for a rate increase from Morristown Water Company, Inc. ("Morristown" or "Company"). An inspection and evaluation of the Morristown water system was conducted by Dorothy Hains, Utility Engineer and Roger Nash, Auditor III in the accompaniment of George Charles, Company's Manager and Steve Lacey, Company's operator on December 13, 2000.

B. LOCATION OF SYSTEM

The Company's service area is in the vicinity of Town of Morristown in Maricopa County, near Wickenburg along U.S. Highway 60. Figures 1 and 2 detail the location of the system in relation to other Commission regulated companies in Maricopa County and in the immediate area. Morristown service area includes portions of Sections 13 and 24 in Township 6 North, Range 4 West and part of Sections 18 and 19 in Township 6 North, Range 3 West.

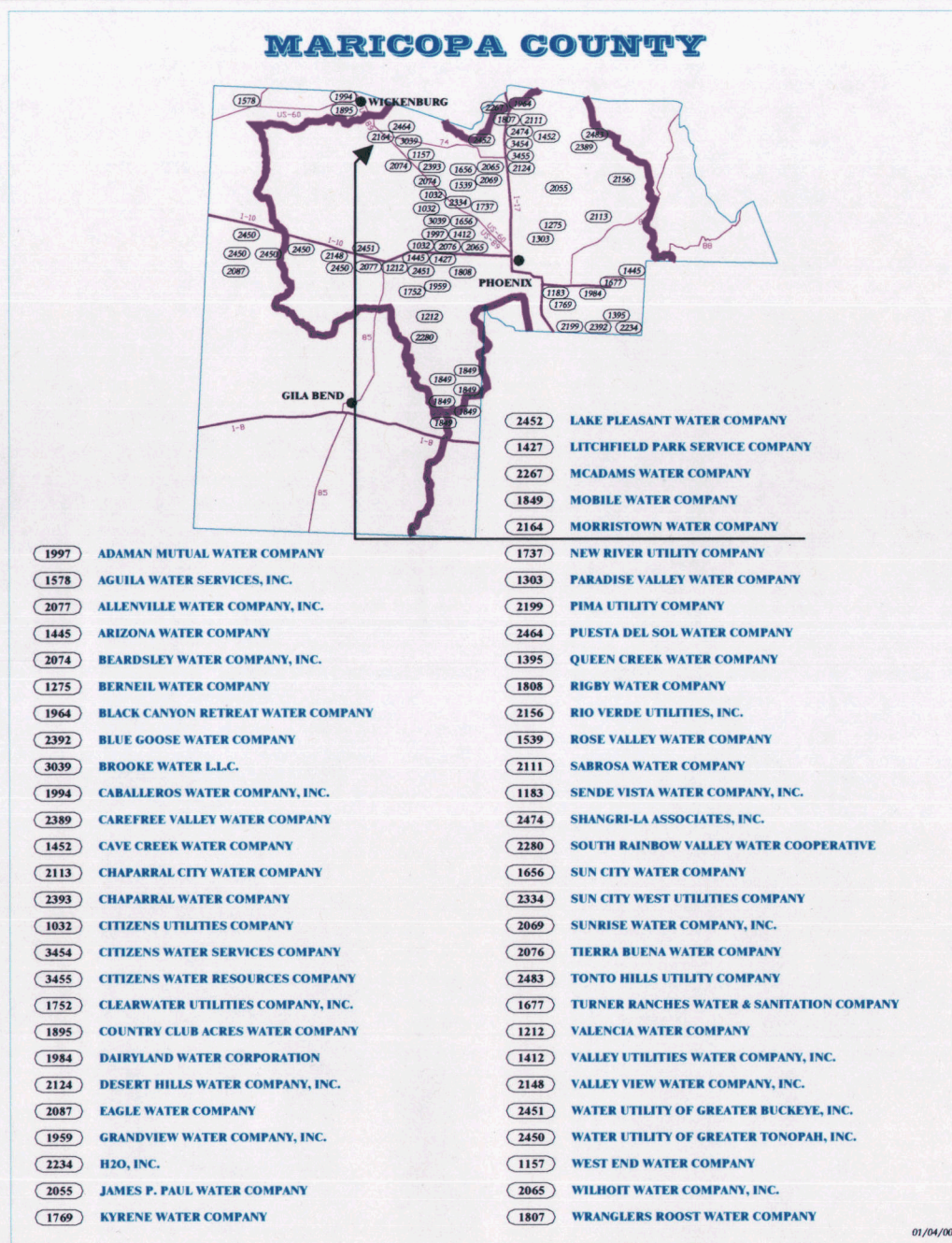
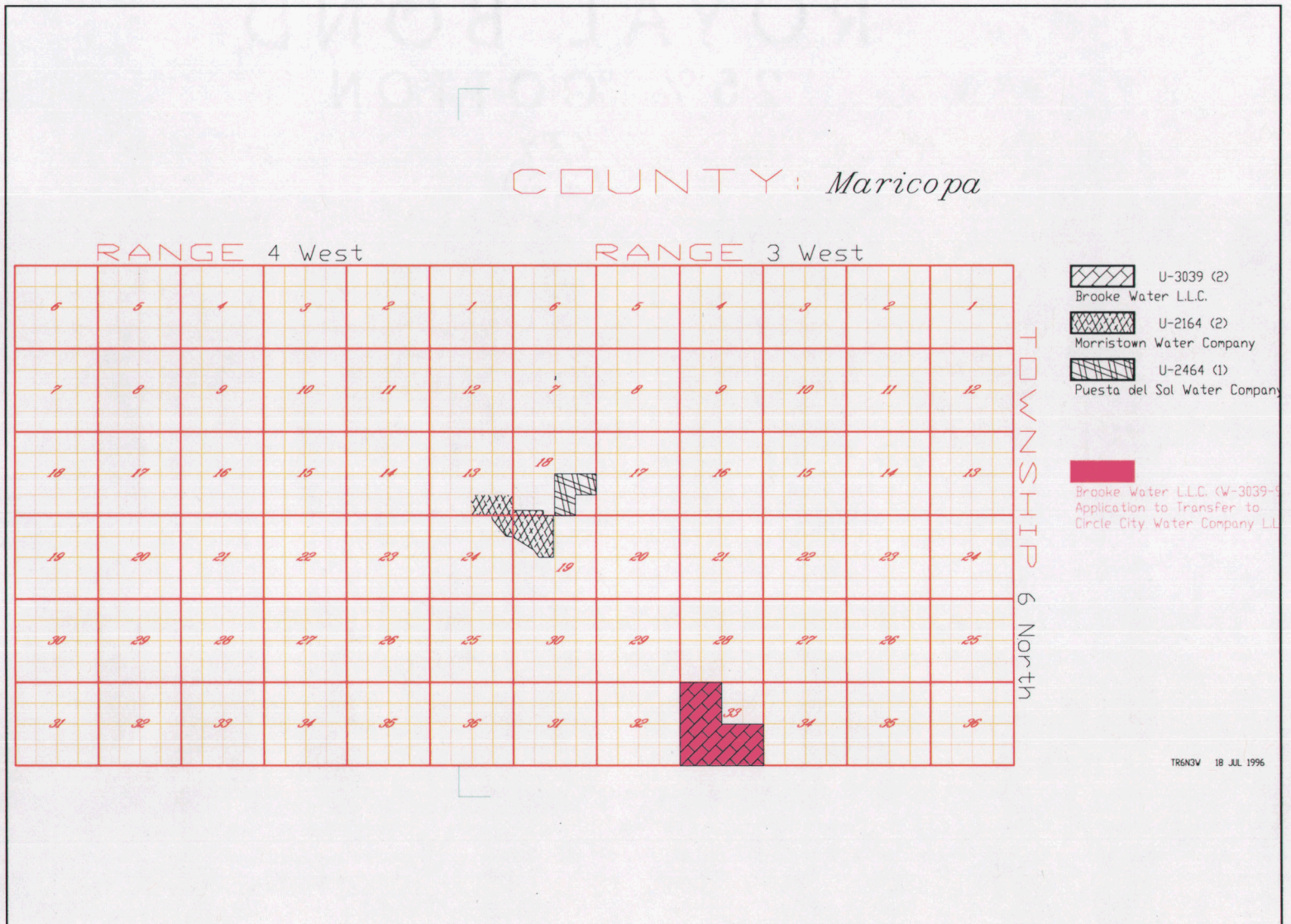


Figure 1. County Map

Figure 2 Certificate Service Area



C. DESCRIPTION OF SYSTEM

The water system consists of one well, two storage tanks, one pressure tank, and a distribution system. Figures 3 is schematic drawings of the water system, a detailed facility description of the system is as follows:

The well is located south of U.S. Highway 60. A six-foot high chain link fence secures the site. Inside the restricted area, the system consists of a well, a 100,000-gallon storage tank and a 20,000-gallon storage tank, a 2,000-gallon pressure tank, a 1½-inch well meter, two 7½ horse power ("HP") booster pumps, two 50-HP booster pumps, and a power control panel.

Well, (Arizona Department of Water Resource ("ADWR") ID number 55-632601), is 706 feet in depth. The well is equipped with an 8-inch casing, a 1½-inch well meter and a 10-HP pump. This well has a flow rate of 40 gallons per minute ("gpm"). The well water is pumped into the on-site steel storage tanks (20,000-gallon tank and 100,000-gallon tank) before it is pressurized in the 2,000-gallon pressure tank. The pressurized water is delivered to 45 customers through the Company's distribution system.

The Company installed its 2,000-gallon steel pressure tank in 1997. The contractor failed to apply an external coat of paint on the tank at that time. As a result, Staff was able to observe corrosion spots on the exterior of this tank. Staff also observed corrosion damages and signs of leakage on the 20,000-gallon storage tank.

A young cottonwood tree was planted next to one of the 7½-HP booster pumps. Cottonwood trees are water-consuming plants; it is Staff's opinion that this tree should be removed or relocated before its roots can penetrate to the adjacent, on-site, underground utility infrastructures.

The distribution system includes 1,990 feet of 4-inch polyvinyl chloride ("PVC"), and 7,923 feet of 6-inch PVC water lines. Fourteen fire hydrants have been installed in Morristown's CC&N area.

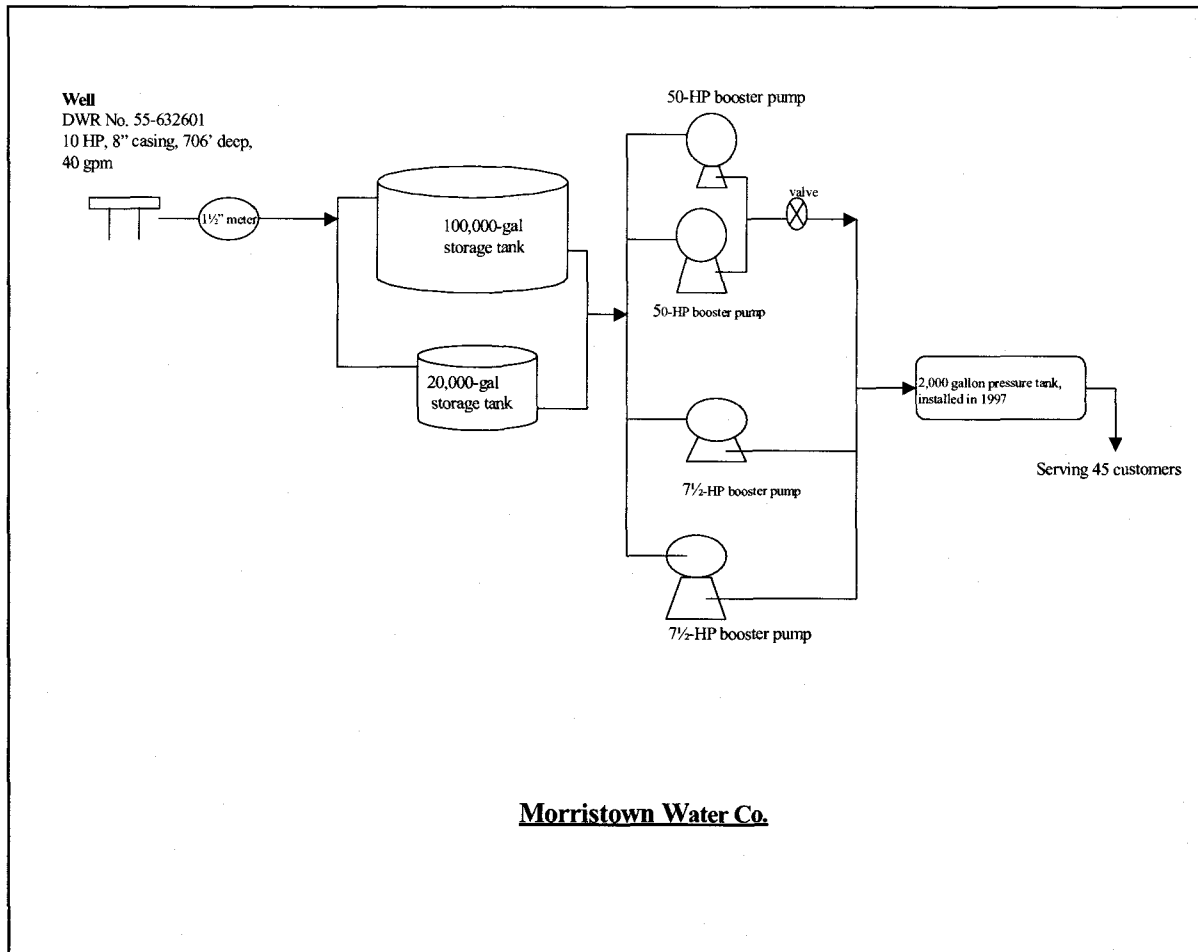


Figure 3. Morristown Water System Diagram

D. WATER USAGE

Table 1 summarizes the water usage in Morristown's CC&N area. Figure 4 shows the Company's water consumption data for the test year ending December 31, 1999. During this period, Morristown experienced a daily average usage of 268 gallons per day ("gpd") per customer, a high usage of 396 gpd per customer and a low usage of 184 gpd per customer. The highest monthly usage occurred in July, when 535,000 gallons was sold to 45 customers. The lowest monthly usage occurred in August, when 256,000 gallons water was sold to 45 customers.

It appears that Morristown failed to record its water consumption data correctly. Generally speaking, December is the low water usage month, not August, in Arizona. This data also showed that water usage declined in April and May which is generally not the case. Staff questions the validity of this data, because April and May are plant growing months in Arizona and residential water usage generally increases during this

period. Staff believes human error is to blame for this abnormal data. This human error could be due to misread service meters, lack of routine O&M, the repair of a leaking storage/pressure tanks, etc.

Table 1. Water Usage

Month	Number of Customers	Total Water Sold (gallons)	Monthly Average (gal/month/customers)	Daily Average (gal/day/customers)
Jan. 99	45	278,000	8,969	199
Feb. 99	45	295,000	9,833	219
Mar. 99	45	377,000	12,161	270
Apr. 99	45	275,000	8,871	197
May 99	46	234,000	8,357	182
Jun. 99	44	445,000	14,355	326
Jul. 99	45	535,000	17,833	396
Aug. 99	45	256,000	8,258	184
Sep. 99	45	386,000	12,867	286
Oct 99	44	415,000	13,387	304
Nov 99	43	477,000	15,387	358
Dec 99	44	386,000	12,867	292
Total		4,359,000		
Average			11,929	268

**Morristown Water Co. Water Usage
During 1999 Test Year**

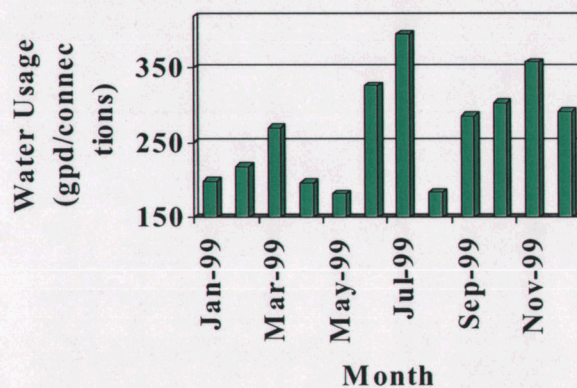


Figure 4 Water Usage

E. GROWTH PROJECTION

Figure 5 details total actual and projected growth for the system using linear regression analysis. The number of service connections was obtained from annual reports submitted to the Commission. Based on the customer meter data contained in these reports, there is no growth, in fact the data shows a decline in connections. The number of connections declined from 48 at the end of 1991 to 45 by the end of the test year. If this type of decline continues, the Company could have approximately 43 customers by the end of 2005 (based on the linear regression analysis). The following table summarizes actual and projected growth in the Company's existing certificated service area.

Year	Nos. of Customers	
1991	48	Reported
1992	47	Reported
1993	47	Reported
1994	45	Reported
1995	45	Reported
1996	48	Reported
1997	45	Reported
1998	45	Reported
1999	45	Reported
2000	45	Estimated
2001	44	Estimated
2002	44	Estimated
2003	44	Estimated
2004	43	Estimated
2005	43	Estimated

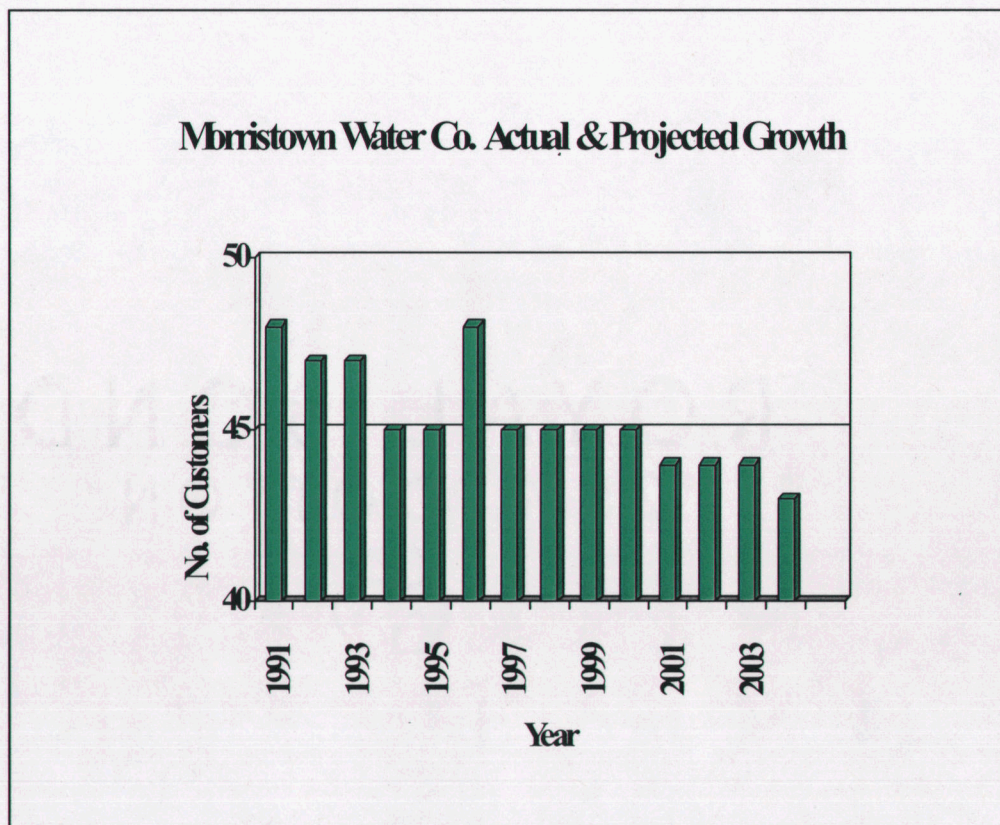


Figure 5 Actual and Projected Growth

F. MARICOPA COUNTY DEPARTMENT OF ENVIRONMENTAL SERVICES WATER QUALITY COMPLAINTS

The Maricopa County Department of Environmental Services ("MCDES") performed a plant inspection on April 13, 1999, and found the system have major plant deficiencies due to bacteria and chemical analyses. In addition, MCDES states that it cannot determine if Morristown meets maximum contaminant level ("MCL") requirements of the Safe Drinking Water Act ("SDWA").

In a December 4, 2000 memorandum to Staff, MCDES states the followings:

- (1) Morristown fails to submit its eleven monthly bacteria sample results in the last 3 years.
- (2) Morristown fails to monitor its nitrate, inorganic chemicals, volatile organic chemicals, and asbestos.

Staff recommends that any rate increase may be approved in this case not become effective until the first day of the month following the Company filing with the Director of the Utilities Division written documentation from MCDES or ADEQ that the water

system has no MCL violations and is serving water which meets the water quality standards of the SDWA.

G. ARIZONA DEPARTMENT OF WATER RESOURCES ("ADWR") COMPLIANCE

At present time, Morristown pumps less than 250 acre-feet per year, it is considered a "small provider" by the ADWR, therefor, is not subject to ADWR's gallons per capita per day (gpcd) limit and conservation rules. Morristown is only required to monitor and report water use. Upon contacting ADWR, Staff learned that Morristown is in compliance with these monitoring and reporting requirements. Morristown is in ADWR Phoenix Active Management Area.

H. WATER TESTING EXPENSES

All monitoring expenses are summarized in Table 2, and are based on Staff's best knowledge of lab costs, methodology and the Company's specific sampling procedures.

Using the ADEQ Monitoring Assistance Program ("MAP") method, Staff has estimated the water testing cost to be approximately \$839 per year for the next three years. These monitoring requirements can be seen in Table 2.

Table 2. Summary of Water Testing Cost (per MAP calculation)

Contaminant	Cost per test	No. of tests per 3 years	Total 3 year cost	Annual expense
Bacteriological - Total Coliform (monthly)	15	36	540	180
gross alpha	50	1	50	17
Nitrate (annual)	15	6	90	30
Nitrite (1/9 years)	15	1	15	5
Asbestos (1/9 years)	170	1	170	57
Lead & Copper	20	30	600	200
Sub-total			1,465	489
ADEQ MAP Annual fee				350
Total				839

Per Invoice Numbers 55247 for the year 1999 sent by the ADEQ Monitoring Assistance Program, the Company's MAP fee is \$350.

I. OTHER

I. Service line and meter installation charges

The Application does not include a complete listing of service line and meter installation charges. Staff recommends the following charges as shown in Table 3.

Table 3. Service Line and Meter Installation Charges

Meter Size	Company Proposed	Staff Proposed
5/8" x 3/4"	\$315	\$375
3/4 inch	\$350	\$435
1 inch	\$385	\$510
1 1/2 inch	\$575	\$740
2 inch	\$950	\$1,300
3 inch	\$1,175	\$1,855
4 inch	\$1,950	\$2,870
6 inch	\$3,825	\$5,375

II. Water Loss

The Company reported 30.32% water loss during the test year. Staff recommends approval of the subject application pending action by Morristown to reduce its water loss to a maximum of 15%, but preferably 10%. If Morristown does not reduce water loss to the 10% level by April 30, 2001, Morristown should explain why it is not cost effective to do so. In any event, Morristown should reduce its water loss to no more than 15% prior to filing its next rate and/or financing application.

III. Miscellaneous

A. Staff recommends Morristown complete the pressure tank painting by October 31, 2001. Estimated cost of sandblasting and painting the tank (for both external and internal) is \$3,000.

B. Staff also recommends removal or relocation of the cottonwood tree (as previously discussed) by December 31, 2001.

C. Because the Company has adequate storage and production and slow population growth, Staff recommends that the Company correct the leaking 20,000-gallon storage tank problem by one of the following methods:

(1) Disconnect the tank from the system.

(2) Repair the tank by sandblasting both inside and outside of the tank. The estimated cost of this job is \$8,000.

(3) Replace the tank with a tank of similar size. The estimated cost of a new 20,000-gallon storage tank is \$19,250.

Tank painting, transportation, and installation-----	\$15,500
Plus Engineering fee -----	\$2,000
Plus 10% overhead cost -----	\$1,750

total -----\$19,250

It is Staff's suggestion that the Company to disconnect the leaking tank by June 30, 2001, and then make the necessary repair or replacement after that. Staff recommends that the Company correct the leaks by December 31, 2001.

D. Staff further recommends that the Company correct the storage tank problem by October 31, 2001.

E. Due to the fact that the Company has missed so many bacteriological tests (eleven) in the past three years, Staff further recommends that any rate increase granted to Morristown in this case be interim and subject to refund through December 31, 2002. If the Company misses any of these tests during that time, the Commission may order the Company to refund all or a portion of the rate increase granted in this case.